



MANDATORY SOCIAL SECURITY Issue Brief

"This mandate would cost the City of Burbank approximately \$8 million over the next 10 years."

—Councilman Dave Golonski
City of Burbank

"Police and fire account for about 67% of Garden Grove's budget. In order to meet the requirements to pay Social Security taxes, it is likely that Garden Grove would have to take drastic measures, such as permanently closing one fire station, eliminating at least 15 police officers from the street and eliminating virtually all 'quality of life' types of services."

—Mayor Bruce A. Broadwater
City of Garden Grove

"The cost to the city of Moreno will be more than \$2,850,000 over the next ten years. If mandatory coverage becomes a reality, any attempt to maintain the current standards for retirement coverage will result in high governmental costs; higher costs will impact the ability of all public agencies to serve their constituents."

—Mayor Pro Tem William H. Batey, II
Moreno Valley

"It would cost the City of Morgan Hill, a local government agency with 135 full-time employees, approximately \$90,000 in the first year, with this amount growing to approximately \$500,000 per year within five years. A significant portion of this amount would have to be paid for from the City's general fund, thereby reducing our ability to provide essential City services to the Morgan Hill community."

—Mayor Dennis Kennedy
City of Morgan Hill

Mandatory Social Security Participation Would Devastate California's Public Sector

A proposal backed by a number of Washington advocacy groups would jeopardize public plan solvency by requiring newly hired public employees and their employers to participate in the Social Security program.

About 1 million public employees in California work for 1,800 public agencies who do not participate in Social Security. If this mandate is enacted, newly hired public employees would be forced to pay 6.2 percent of their wages to Social Security and their employers would have to pay a like amount. The multi-billion dollar drain on public employers would inevitably affect current workers, as well — maybe even cost them their jobs. Implementation of mandatory Social Security participation would have a devastating impact on California.

According to a Joint Resolution of the Legislature:

- The cost would be \$12.5 billion over 10 years.
- State and local government employers in California may have no choice but to reduce such services as law enforcement, fire protection, library, parks and recreation, refuse collection and recycling programs in order to pay this new Federal tax.
- Benefits currently provided by California's State and local government retirement plans may need to be reduced (for newly hired workers) due to the cost imposed by mandatory Social Security coverage.
- The largest single sector affected would be education. Some 450,000 teachers in California who work for more than 1,000 school districts are not in Social Security.

What You Can Do

The most important actions that you can take are, 1) to urge your employer to determine the cost of mandatory coverage for you and them, 2) to have them write the President, the Vice President and your Senators and Congressmen with this information and 3) to write your Federal representatives yourself and urge them to oppose mandatory coverage. A sample letter and a list of these Federal representatives begins on page 4 of this issue brief.

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Background Chronology

1935

Social Security Act passed prohibiting State and local employees and their employers from participating in the program because the Constitution bans Federal taxation of State and local governments.

1955

State and local governments are allowed to voluntarily join and leave the Social Security program.

1977

Persons collecting a pension benefit from non-Social Security employment are prevented from receiving full Social Security spousal benefits.

1977-1997

Mandatory coverage of public employees and their employers contained in various Federal Executive and Legislative Branch proposals.

1983

Revolving door closed. State and local governments choosing to be in the program must stay in. Public employees whose employers did not participate in Social Security but who qualified for Social Security from other employment see their Social Security benefits substantially reduced.

1997

Federal Advisory Council on Social Security recommends mandatory Social Security coverage of all newly hired public employees. Council report says such coverage will raise 10 percent of the funds needed to balance the fiscally troubled program and it is a matter of fairness.

Congressional Budget Office's annual report to the Budget Committees says mandatory Social Security coverage of newly hired public employees would partially fix Social Security by raising \$11.3 billion in new revenues over five years.

White House working group begins weekly meetings on Social Security reform options in September.

1998

President Clinton says Social Security funding shortfall will be his top priority. White House coordinator of the Administration's weekly Social Security meetings says mandatory coverage of newly hired State and local government workers and their employers is a "no brainer" proposition; will result in needed funds; and is simply a matter of fairness.

Senator Daniel Patrick Moynihan (D-NY) introduces a comprehensive Social Security reform bill, S. 1792, that would provide for personal savings accounts and require coverage for all State and local government new hires.

National Commission on Retirement Policy sponsored by the Center for Strategic and International Studies, a business group, proposes a Social Security reform plan that includes mandatory coverage of newly hired public employees and their employers.

Ways and Means Social Security Subcommittee holds hearing on mandatory coverage of newly hired public employees and their employers.

Rep. Jim Kolbe (R-AZ) and Rep. Charlie Stenholm (D-TX) introduce Social Security reform bill, H.R. 4824, that creates private savings accounts and includes mandatory coverage.

CalPERS and other public pension plans begin organizing a coalition to support voluntary participation in Social Security by public employees and their employers.

1999

President Clinton proposes a Social Security reform plan that does not include mandatory coverage. Congressional Republicans introduce a plan of their own and it, likewise, does not include the new payroll tax.

CalPERS helps to found the Coalition to Preserve Retirement Security, which steps up efforts to oppose mandatory coverage.

The Segal Company releases study estimating the cost of mandatory coverage to states and localities at \$26 billion over five years.

Moynihan reintroduces Social Security reform bill containing mandatory coverage, S. 21, with Sen. Bob Kerrey (D-NE). Rep. Mark Sanford (R-SC) and Rep. Nick Smith (R-MI) each introduce bills, H.R. 249 and H.R. 3206, respectively, that include forcing newly hired public workers and their employers into Social Security.

Kolbe and Stenholm reintroduce their Social Security reform bill, H.R. 1793, but remove mandatory coverage provisions.

Texas Governor George W. Bush (R) signs onto letter to President Clinton opposing mandatory coverage. AARP commissions study to refute cost estimate in the Segal study.

2000

Governor Bush and Vice President Al Gore (D) each pledge to reform Social Security if elected President. Gore tells *Meet the Press* Tim Russert that he opposes mandatory coverage.

AARP releases report by Alicia Munnell, long-time proponent of mandatory coverage. The report does not refute the cost estimates, but contends that mandatory Social Security coverage is matter of "fairness."

2001

Kolbe and Stenholm again reintroduce their Social Security reform bill, H.R. 2771. Mandatory Social Security coverage provisions remain absent. Key lawmakers voice opposition to mandatory coverage in letters to the President and the Social Security commission.

A commission appointed by President Bush to study Social Security reform and issue a report that does not recommend mandatory coverage. Panel co-chair Moynihan says that the reason for not including it is because, "The opposition is just too strong, too organized."

2002

House Ways and Means Social Security Subcommittee Chairman Clay Shaw, R-Fla., introduces a Social Security reform bill that does not include mandatory coverage.

2003

Shaw's committee holds a hearing on mandatory coverage and other Social Security issues affecting public employees at which the chair of the Coalition to Preserve Retirement Security testifies.

Smith introduces H.R. 3055, a Social Security reform bill that includes mandatory coverage.

Factoid

Section 210 of the Social Security Act as passed by Congress and signed by President Roosevelt in 1935 defined "wages" to be covered by the new payroll tax as "all remuneration for employment."

"Employment" was defined in Section 210 as "any service, of whatever nature, performed within the United States by an employee for his employer, except...service performed in the employ of a State, a political subdivision thereof, or an instrumentality of one or more States or political subdivisions."

For more information on the Social Security program — from the text of the original act and the transcripts of the 1935 congressional debates through the latest amendments — go to www.ssa.gov.

ACTIONS BY CALPERS

1997	Helps organize and attends a meeting of public pension representatives with White House officials who tell group that mandatory coverage is a matter of fairness and a “no brainer” and that the government needs the money.
1998	CalPERS helps found the Coalition to Preserve Retirement Security. Pursuant to Board directive, CalPERS surveys employers and develops agency-by-agency cost estimates, and convenes issue briefings in eight cities across the State attended by representatives of 750 employers. James Burton, CalPERS Chief Executive Officer, leads delegation of Californians to a meeting with White House officials. President Clinton invites Burton to be a delegate to the White House Conference on Social Security at which Burton delivers a paper opposing mandatory coverage that includes California impact statement. Burton and other California representatives brief State’s Congressional delegation staff.
1999	In Sacramento, testimony by CalPERS before California Legislature Committee leads to passage of Assembly Joint Resolution No. 9, opposing mandatory coverage. The Coalition to Preserve Retirement Security is officially founded and CalPERS becomes a charter member.
2000	CalPERS Board of Administration adopts formal policy to oppose efforts to mandate participation of newly hired state and local government employees in the Social Security program. CalPERS’ Washington representatives continue fight in opposition to mandatory coverage in coordination with Coalition to Preserve Retirement Security.
2001	<p>Following creation of President’s Commission to Strengthen Social Security, CalPERS continues to work with Coalition to organize opposition to mandatory coverage by public plans, public employers and public employee unions. CalPERS and Coalition members meet with key federal lawmakers to organize opposition.</p> <p>Coalition requests opportunity to testify in opposition to mandatory coverage, but is denied. Coalition urges commission not to include mandatory coverage in report. (Final report does not include mandatory Social Security coverage because opposition is “too strong, too organized.”)</p>
2002	CalPERS continues to work with Coalition to keep up momentum.
2003	Chair of the Coalition to Preserve Retirement Security, a group that CalPERS helped to form, testifies against mandatory coverage at a congressional hearing.

What Tax Advocates Say

- Social Security program participation is a matter of fairness.
 - ✓ A majority of citizens are in the program, including U.S. Senators and Members of Congress and soldiers and sailors — even a majority of State and local government agencies and their workers are in the program.
 - ✓ Most of the seven million not in the program nevertheless get part-time or post public service career jobs that enable them to qualify for Social Security so they get the benefit anyway but without paying their fair share.
- It is every citizen’s duty to participate.
- The program is in trouble and the government needs the money.

What Opponents Say

- Fairness may sound good but these public agencies and their workers were prohibited from participating in the program when Social Security was established in 1935. They were told to develop their own systems.
- Complex benefits systems were developed — dating back to the 1930s — to take into account the special retirement and disability needs of public safety employees and others.
- These benefit systems — even when fully funded — require continued cash flow for investments that fund benefits, including health insurance. Diverting funds to Washington could result in reduced government services, reduced employee benefits and/or higher government costs.
- Public pension beneficiaries who have earned a Social Security benefit are subject to a Federal cutback in their Social Security payments.
- Investment earnings in current retirement systems that exceed projections are credited to employers whose costs are reduced. There is no such yield to employers in Social Security.

Contacting Your Public Officials

It is important to communicate with your public representatives, including the President and the Vice President. To the right is a sample letter for Senators or Representatives. Their addresses follow on pages 5 through 8. For letters to the President or Vice President, the text of the letter should be addressed as follows:

**President George W. Bush or
Vice President Richard B. Cheney
The White House
Washington, D.C. 20500**

The salutation should read:

“Dear Mr. President:”

or

“Dear Mr. Vice President:”

You will find some useful tips below.



DO

- ✓ Present facts
- ✓ Explain consequences
- ✓ Stay on message
- ✓ Be nice
- ✓ Thank them for past help

DON'T

- ✓ Trash Social Security
- ✓ Preach or threaten
- ✓ Tell them how to fix Social Security
- ✓ Send form letters

Sample Letter

Honorable _____
U.S. House of Representatives/U.S. Senate
Washington, D.C. 20515/20510

Dear Representative/Senator _____:

As a constituent of yours, I am writing to urge you to oppose any legislation that would force newly hired state and local public workers into the Social Security program.

Obviously, Social Security is an important program and needs to be reformed to ensure its long-term survival, but bringing in newly hired state and local public employees is a bad idea. It would have a small fiscal impact on the overall program, but potentially cripple my public retirement system. [Give the precise financial effects on your agency or organization.]

[State the action you would like the letter recipient to take (i.e., committing to fighting mandatory coverage proposals; getting a commitment from the President not to propose it; convincing Congressional leadership to oppose it; removing mandatory coverage from any negotiations, etc.)]

Thank you for your assistance with this matter.

Sincerely,

Californians Opposed to Mandatory Social Security

Senators

Barbara Boxer

Dianne Feinstein

Representatives

Joe Baca
Howard Berman
Lois Capps
Randy Cunningham
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Sam Farr
Bob Filner
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Richard Pombo
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Ed Royce
Loretta Sanchez
Adam Schiff
Brad Sherman
Hilda Solis
Ellen Tauscher
Mike Thompson
Henry Waxman
Lynn Woolsey

Please forward copies of any letters you receive from California lawmakers on this issue to CalPERS Governmental Affairs/Federal. Address on Page 9.

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ASSEMBLY JOINT RESOLUTION No. 9

Resolution Chapter 40, Statutes of 1999, Chaptered May 26, 1999

This measure would memorialize the President and the Congress of the United States not to include mandatory Social Security coverage on noncovered state and local government employees in any Social Security reform legislation.

WHEREAS, The Social Security Trust Fund is expected to have insufficient funds to meet its obligations by 2032; and

WHEREAS, Comprehensive Social Security reform is necessary to ensure continued viability of the Social Security system for the millions of current and future beneficiaries; and WHEREAS, Legislation is expected to be considered in Congress which is intended to provide financial stability to the Social Security Trust Fund; and

WHEREAS, Mandating coverage for all newly hired noncovered state and local government employees has been suggested by some as one of the possible options for financing Social Security reform; and

WHEREAS, State and local government employers were initially precluded from participating in the Social Security system when it was established in 1935 on the basis that it was considered unconstitutional for the federal government to tax state and local governments; and

WHEREAS, State and local governments established retirement plans to meet their needs in lieu of Social Security coverage; and

WHEREAS, The federal government is now searching for avenues to finance the failing Social Security Trust Fund; and

WHEREAS, Mandating Social Security coverage on all newly hired noncovered employees extends the solvency of the Social Security Trust Fund a mere two years; and

WHEREAS, Mandatory Social Security coverage results in a tax increase of 6.2 percent each for the state and local government employer and employee; and

WHEREAS, There are currently over one million noncovered public employees in the State of California most notably public school teachers, faculty, and administrators, and public safety, as well as numerous city, county, and special district, employees; and

WHEREAS, Estimates project a cost of at least \$12.5 billion to California's state and local government employers, primarily school districts, and newly hired workers over the first 10 years of implementation; and

WHEREAS, Education reform is a critical priority for the State of California; and

WHEREAS, Mandatory Social Security coverage will have a devastating impact on California's ability to implement education reform measures, such as class size reduction; and

WHEREAS, This increased tax from mandatory Social Security coverage would come at the direct expense of education programs, benefits, and services for students and employees in California; and

WHEREAS, State and local government employers in California may have no choice but to reduce services such as law enforcement, fire protection, health, programs for senior citizens and the disabled, library, parks and recreation, refuse collection, and recycling programs in order to pay this new federal tax; and

WHEREAS, Benefits currently provided by California's state and local government retirement plans may need to be reduced due to the cost imposed by mandatory Social Security coverage; and

WHEREAS, The increased employee tax will result in a significant reduction of a newly hired worker's take-home salary; and

WHEREAS, Reducing the current retirement benefit structure and the take-home salary of workers will have an adverse impact on the recruitment and retention of public employees in California and employee morale; and

WHEREAS, This new tax is a shift of federal government burden to our communities to solve a federal problem which our state and local governments had no hand in creating and under which there will be no benefit paid to our workers for more than a generation; and

WHEREAS, Compelling state and local governments to participate in the Social Security system provides no benefit to these public employers, school districts, or students; now, therefore, be it

Resolved by the Assembly and Senate of the State of California, jointly, That the Legislature of the State of California urges the President and the Congress of the United States in the strongest possible terms not to include mandatory Social Security coverage on noncovered state and local government employees in any Social Security reform legislation; and be it further

Resolved, That the Chief Clerk of the Assembly transmit copies of this resolution to the President and Vice President of the United States, to the Speaker of the House of Representatives, and to each Senator and Representative from California in the Congress of the United States.

CalPERS Mandatory Social Security Issue Brief
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